Indian Clearing Corporation Limited

February 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating - Issuer rating	0.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Issuer rating of Indian Clearing Corporation Limited (ICCL) factors in parentage and strong linkage to BSE Ltd [BSE], ICCL being the wholly owned subsidiary of BSE and acting as a central counterparty (CCP) for clearing and settlement (C&S) of BSE's trades in addition to performing C&S for other stock exchanges, being recognised as a Qualifying CCP (QCCP) by Securities and Exchange Board of India (SEBI).

Established in 1875, BSE is India's and Asia's oldest stock exchange. It is one of India's leading exchanges, providing market for trading in equity, currencies, debt instruments, derivatives, and mutual funds.

The rating factors in the strong regulatory oversight of the sector by the market regulator, SEBI, which has outlined risk management guidelines such as – Core Settlement Guarantee Fund (SGF), Default Waterfall and Stress Test to be adhered to by the CCPs underlining ICCL's systemic importance as a Financial Market Infrastructure (FMI) entity, and ICCL's classification as a recognised CCP and compliance with the FMI principles.

The rating continues to factor in ICCL's strong capitalisation level with nil gearing. ICCL had tangible net worth (TNW) of ₹1,179 crore as on September 30, 2024, including Core SGF of ₹981 crore compared to the Minimum Required Corpus (MRC) of ₹47 crore as on September 30, 2024.

The rating also takes note of earnings vulnerability to volatile trading volumes partly offset by wider market access through inter-operability.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade:

Not applicable

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade:

- Weakening of support from or linkages with parent company, BSE due to reduction in shareholding or regulatory changes.
- Shortfall in Actual SGF from regulatory requirements.
- Moderation in credit profile of BSE.

Analytical approach:

CARE Ratings Limited (CARE Ratings) has analyzed the standalone credit and risk profile of ICCL. Ownership and operational linkages with its parent BSE are also factored in.

Outlook: Stable

The stable outlook considers the strong regulatory supervision by SEBI over the last few years with guidelines on stress testing, Core SGF, and Default Waterfall Mechanism.

Detailed description of key rating drivers:

Key strengths

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Systemic importance; benefits from linkages with parent company

ICCL plays a crucial role in the Indian financial markets as one of the three CCPs tasked with clearing exchange listed products and it has been designated as a financial market intermediary (FMI) by SEBI. Being a CCP, the entity is systemically important in the financial sector as it bears the counterparty credit risk of both the trading parties. The recognition of its growing importance is exhibited by the increasing regulatory scrutiny by SEBI and the continuing regulatory developments led by SEBI.

ICCL, as a wholly owned subsidiary of BSE, maintains a strong integration with its parent company, particularly regarding technology and infrastructure. This relationship is further solidified by SEBI's regulatory requirements, which mandate that BSE holds at least a 51% ownership stake in ICCL and makes a minimum contribution of 25% to the Core SGF. Historically, BSE has contributed between 30% and 35% to the Core SGF, showcasing its ongoing commitment and support for ICCL.

BSE's TNW stood at ₹3,738 crore (consolidated) and ₹3,029 crore (standalone) as on September 30, 2024, with nil borrowings. For FY24, on standalone basis, BSE reported profit after tax (PAT) of ₹753 crore on a total income of ₹1,292 crore.

Strong capitalisation levels and nil gearing

ICCL continues to demonstrate robust capitalisation levels, with a TNW of ₹1,040 crore as on March 31, 2024, increasing to ₹1,179 crore as on September 30, 2024. This is notably well above the minimum net worth requirement of ₹100 crore set by SEBI.

ICCL had nil term borrowings as on September 30, 2024 (Nil borrowings as on March 31, 2024). As on September 30, 2024, ICCL had sanctioned overdraft facilities of ₹2,496 crore and bank guarantee limits of ₹8,700 crore. Bank guarantees are required due to interoperability and are kept with other CCPs as a margin, these bank guarantees are exchanged between the CCPs. Overdrafts are kept for intraday purpose and utilised only in instances of technical defaults. Bank guarantee and Overdraft (OD) facilities had nil utilisation in FY24 and H1FY25.

Strong regulatory supervision by SEBI ensures adherence to global financial standards

ICCL's business operations are under close supervision by SEBI, in accordance with the robust regulatory framework established by SEBI in recent years. This includes guidelines on stress testing, the Core SGF, and the Default Waterfall, all designed to ensure compliance with international standards and regulations, such as the Principles for Financial Market Infrastructures (PFMI) set forth by CPMI-IOSCO. The FMI principles include standards regarding participant default rules and procedures, minimum financial resources to cover credit and liquidity exposure of central counterparties and testing (stress testing, reverse stress testing, back testing). ICCL has been recognised as a QCCP and its operational systems undergo regular evaluation by SEBI. Before extending its services to any segment of a recognised stock exchange or admitting securities for C&S, ICCL needs to obtain SEBI's approval. SEBI also prescribes margins to be collected from the members based on their positions.

Adequate counterparty and operational risk management

ICCL has implemented robust risk management systems to address the risk of default by clearing members. ICCL regularly collects prescribed margins from its clearing members in each segment. Members receive real-time alerts regarding their margin usage when it approaches predefined thresholds. ICCL has prescribed margins such as Initial Margin (VaR) and SPAN, Spread Margin, Extreme Loss Margin, Additional Margin and Special Margin, which are monitored on a real-time basis. Daily stress tests are conducted, with the frequency of model assessments increasing when risks are identified due to price volatility of underlying securities or an escalation in a clearing member's position and so on.

ICCL has a comprehensive margin and collateral risk management system, requiring that 50% of the margins and collateral be held in cash and cash equivalents to effectively manage the liquidity risk in stress conditions. Initial margins are determined based on a 99% confidence interval and haircuts on collateral (10% or Value at Risk [VaR]) are applied on a real-time basis.

In the event of a margin shortfall, the risk management system issues alerts at various collateral utilisation levels (70%, 80%, and 90%). When collateral utilisation reaches 90%, the member is placed in risk reduction mode, and the trading terminal is disabled once utilisation exceeds 100%. At 100% utilisation, the member's terminal is suspended.

In case of default by clearing members, ICCL follows a defined waterfall mechanism to recover money and mitigate the counterparty risk. Additionally, ICCL has allocated ₹100 crore for recovery and resolution purposes, which includes covering operational costs for one-year, legal expenses, regulatory fees, and other liabilities.

Headroom led by a well-funded default waterfall

ICCL boasts a well-developed structure with substantial liquidity buffers that cushion its risk exposures. As on September 30, 2024, ICCL maintained a strong buffer with a Core SGF of ₹981 crore, compared to the Actual MRC of ₹47 crore. This Core SGF aligns with SEBI's 2014 mandate to create a liquidity buffer to hedge against clearing members default risk.

Additionally, ICCL holds a counterparty default insurance of ~₹500 crore and has experienced zero counterparty defaults throughout its operations. The collaterals and margin being the first line of defence mechanism in the waterfall structure, the adequacy of margins computed and monitored on a real-time basis. As required by SEBI, core SGF adequacy is reviewed monthly through stress scenarios.

Earnings vulnerability to volatile trading volumes partly offset by wider market access through inter-operability

In the equity segment, ICCL settled and cleared 7% of overall trade volumes in H1FY25, down from 8% in FY24 (7% in FY23). In the derivatives segment, ICCL settled and cleared 4% of overall trade volumes in H1FY25, a decrease from 5% in FY24 (5% in FY23). In the currency derivatives segment, ICCL settled and cleared 36% of overall trade volumes in H1FY25, compared to 26% in FY24 (29% in FY23). Across all segments, ICCL settled and cleared 6% of market share in H1FY25, down from 9% in FY24 (10% in FY23).

In FY24, the company reported an increase of 245% y-o-y in FY24, which stood at ₹114 crore on total income of ₹409 crore compared to PAT of ₹33 crore on a total income of ₹216 crore in FY23 led by increase in clearing and settlement fees from exchanges. The company's earnings ability continues to remain volatile led by trading volumes.

Liquidity: Strong

ICCL has strong liquidity to manage its clearing member defaults and to support its business operations. In addition to ICCL's Core SGF, ICCL has access to liquidity in the form of cash and bank balances to the tune of ₹3,772 crore (excluding earmarked) against no external borrowings as on September 30,2024.

ICCL has received sanctions from their board amounting to ₹12,000 crore, with drawdowns of ₹8,700 crore as of September 30, 2024. In an adverse stress scenario of clearing member default, ICCL has a robust liquidity framework and an adequate default waterfall to manage the consequent liquidity risk.

Applicable criteria

- Policy on Default Recognition
- Rating Outlook and Rating Watch
- Financial Ratios - Financial Sector
- Notching by Factoring Linkages in Ratings
- Issuer rating

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Capital markets	Depositories, clearing houses and other intermediaries

About ICCL

ICCL was incorporated in April 2007 as a wholly owned subsidiary of BSE. ICCL carries out the functions of clearing, settlement, collateral management, and risk management for segments such as equity cash market (including BSE SME, offer for sale, securities lending & borrowing, corporate bonds, and government securities), equity derivatives segment (stock & index futures and options), currency derivatives (currency (including cross-currency) futures and options, interest rate futures and options), commodity derivatives and debt products, including tri-party repo products. Post-interoperability, ICCL settles trades reported on the debt and mutual fund segments of BSE and other exchanges. ICCL operates under the primary regulation of the SEBI and the Reserve Bank of India (RBI) for select products.

About BSE

Established in 1875, BSE (formerly known as Bombay Stock Exchange), is Asia's first and one of India's leading exchange groups. In the last 149 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. Popularly known as BSE, the bourse was established as 'The Native Share & Stockbrokers' Association' in 1875. In 2017, BSE became the first listed stock exchange of India.

BSE provides an efficient and transparent market for trading in equity, currencies, debt instruments, derivatives, and mutual funds. BSE is the world's largest stock exchange in terms of number of companies listed. As on March 31, 2024, BSE is ranked #7 by market capitalisation among global stock exchanges, and the largest in India, with a total market capitalisation of ₹386 lakh crore.

ICCL:

Brief Financials (₹ crore)	31-03-2023	31-03-2024	H1FY25
	A	A	UA
Total income	216	409	222
PAT	33	114	114
Interest coverage (times)	NA	NA	NA
Total assets	2664	5060	5731
Net NPA (%)	NA	NA	NA
ROTA (%)	1.20	2.95	4.23*

*Annualised

A: Audited; UA: Unaudited; NA: Not applicable; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AAA; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (13-Mar-24)	1)CARE AAA; Stable (27-Dec-22)	1)CARE AAA (Is); Stable (28-Dec-21)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated: Not applicable

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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